To begin to implement the deregulatory purpose of the 1996 Act for rate of return LECs, the Commission should provide them with pricing flexibility as a major feature of any new access charge program. One crucial change for affiliated groups of small and primarily rural LECs like TDS Telecom would be to remove the requirement that withdrawing any affiliated LEC from the NECA CCL pool requires withdrawal of all the affiliated LECs. Pooling can benefit customers in markets where competition is not yet feasible. However, the price averaging that takes place within a pooling mechanism can add to the problem of selective bypass by CLECs. These carriers are free to serve only the locations and customers they believe will offer the best opportunities for profit. When a relatively low cost member of the NECA pool charges the rates in NECA's tariff, set to recover the costs of all pool members including those with higher service costs, the resulting averaged rate is set above that lower cost carrier's cost of service. In contrast, a CLEC is able to provide interexchange access at rates which reflect only its own costs. This, in turn, gives it a competitive advantage in providing alternative access service. Such discrepancies between the LEC's costs and its rates give CLECs an incentive to provide access service in lower cost pool members' areas in response to these regulatory and pool pricing anomalies, regardless of whether their costs are lower or their operations are more efficient than the incumbent's. Loss of their typically few high volume customers deprives the incumbent rural rate of return LEC of those customers' contribution towards affordable rates throughout the higher cost portions of its service area.

Like other rural and small LECs, the TDS Telecom LECs are geographically scattered and diverse. Some are already experiencing competition. Others serve in areas that are not attractive for competitive entry. It is imperative that each LEC faced with competition have enough flexibility to set its own CCL tariff when necessary to meet competition. Nevertheless, the interests of customers of other TDS Telecom LECs should not be compromised by denying them the benefits provided by pooling. The "all-or-nothing" requirement has lost any ability it may once have had to protect the interest of consumers in the new environment and should be repealed to prevent the distorted signals for entry that compulsory pooling or withdrawal for all affiliates can create in today's marketplace.

Zone pricing for non-pooling LECs would similarly help to alleviate the perverse market signals and pricing distortions caused by the requirement to continue study area-wide averaging of costs for access tariffs, when CLECs need serve only those lower cost portions of the study area or the particular customers they wish to target. The Commission should also explore flexibility that would allow LECs to meet contract prices offered by their competitors to attract specific customers or groups of customers.

CONCLUSION

The Commission is not in a position to evaluate permanent access charges now, since its universal service mechanism will not be completed until 2001 at the earliest and the Commission needs to be able to weigh the cumulative impact of access and universal service changes. Access charge requirements, like other provisions of the 1996 Act, must satisfy all §254 requirements, including reasonably comparable rates, services and access to advanced services for rural and urban areas and geographic averaging of all interexchange carrier charges. Thus, the Commission should adopt only interim access changes for now and must not jeopardize the transitional universal service arrangements it wisely adopted for rural telephone companies.

Any interim access changes (a) should cap rate of return LECs' SLC or PICC charges at a level no higher than each year's average of SLC and PICC charges for price cap LECs, (b) should not be allowed to imperil rate comparability, geographic averaging or IXC incentives to serve rural markets, (c) should not shift any additional costs into the carrier common line revenue requirement and (d) should abandon the ill-conceived effort to define and discriminate between primary and non-primary residential access lines. Any permanent access charge changes must be tailored and evaluated as part of a comprehensive package of linked rules that, as a whole, satisfy the 1996 Act's commitment to competition, deregulation and universal service. The integrated policy package should not only resolve and coordinate universal service and access charge reform issues. It should also harmonize its jurisdictional separations rules and take positive action to implement the Act's deregulatory mandate for incumbent LECs by permitting them to respond to competition and marketplace pressures in their pricing and pool membership decisions.

Respectifully submitted,

TDS TELECOM

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August 17, 1998

CERTIFICATE OF SERVICE

I, Victoria C. Kim, a secretary in the offices of Koteen & Naftalin, hereby certify that true copies of the foregoing NRTA and NTCA Comments on Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulations, have been served on the parties listed below, via first class mail, postage prepaid on the 17th day of August, 1998.

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